

Acord Cox & Company
Certified Public Accountants

**RURAL WATER DISTRICT NO. 3
NEMAHA COUNTY, KANSAS**

**Financial Statements for the
Year Ended December 31, 2015 and 2014
and Independent Auditors' Report**

**RURAL WATER DISTRICT NO. 3
NEMAHA COUNTY, KANSAS**

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INDEPENDENT AUDITORS' REPORT

Board of Directors and Members
Rural Water District No. 3
Nemaha County, Kansas

We have audited the accompanying statements of net position of Rural Water District No. 3, Nemaha County (the "District") as of December 31, 2015 and 2014, and the related statements of revenue, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

Basis for Qualified Opinion

As more fully described in Note 6 to the financial statements, the District has not implemented GASB Statement No. 68, "Accounting and Financial Reporting for Pensions" and therefore the financial statements referred to above are not presented in accordance with accounting principles generally accepted in the United States of America.

GASB 68, which is effective for fiscal years beginning after June 15, 2014, requires entities to report their "share" of the net unfunded pension liability as an obligation on the face of the Statement of Net Position along with certain other detailed footnote disclosures related to the pension plan including, among other things, the actuarial assumptions used to determine the pension liability.

The District participates in the Kansas Public Employees Retirement System (KPERS), a multiple employer public employee defined benefit plan. In 2015, KPERS computed and published the net pension liability (NPL) as of June 30, 2014 and June 30, 2013 for each participating employer.

The implementation of GASB No. 68 would have resulted in the District recording a net pension liability of approximately \$78,000 and \$101,000 at December 31, 2015 and 2014, respectively.

Qualified Opinion

In our opinion, except for the effects of the matter discussed in the Basis for Qualified Opinion section, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the District as of December 31, 2015 and 2014, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter: Management's Discussion and Analysis

Management's discussion and analysis on pages 3 through 7 is presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Acord Cox + Co.

January 15, 2016

Rural Water District No. 3

Nemaha County, Kansas

Management's Discussion and Analysis

This section of the Rural Water District No. 3, Nemaha County, Kansas' Annual Financial Report presents an analysis of the District's financial performance during the fiscal years ended December 31, 2015 and 2014. This information is prepared by RWD No. 3 and presented in conjunction with the annual audited financial report prepared by the District's independent auditing firm.

Rural Water District No. 3 Financial Overview for 2015

- Total assets increased by \$120,485 from \$7,959,688 in 2014 to \$8,080,173 in 2015.
- Liabilities decreased by \$86,163 from 1,572,625 in 2014 to \$1,486,462 in 2015.
- Net Position increased by \$206,648 from 6,387,063 in 2014 to \$6,593,711 in 2015.
- Total revenues for 2015 were \$868,061, a \$108,156 increase from \$759,905 in 2014.
- Total expenses for 2015 were \$682,362, a \$1,711 increase from \$680,651 in 2014.
- Water system improvements and additions totaled \$924,117 in 2015.
- Principal payments resulted in a \$130,000 reduction in outstanding long-term debt from \$1,525,000 on December 31, 2014 to \$1,395,000 on December 31, 2015.

Overview of the Financial Statements

This report will include Management's Discussion and Analysis, Financial Statements for the years ended December 31, 2015 and 2014, along with the Independent Auditors' Report. The Independent Auditors' Report will include notes and supporting details for information presented in Management's Discussion and Analysis.

Required Financial Statements

The Financial Statements of the District report information by using accrual accounting practices. The Financial Statements conform to accounting principles that are generally accepted in the United States of America. The Statements of Net Position include information on the District's assets and liabilities and provides information about the type and amounts of investments (assets) secured and the obligations to the District's creditors (liabilities). The Statements of Revenues, Expenses and Changes in Net Position exhibit the District's revenues and expenses for the fiscal years ended December 31, 2015 and

2014. The Statements of Cash Flows present information on the District's cash receipts, cash payments and changes in cash resulting from operations, investments and financing activities.

Financial Analysis of the District

The Statements of Net Position and the Statements of Revenues, Expenses and Changes in Net Position present information on the District's financial condition. The District's net position is indicated by the difference between its assets and liabilities. An improvement in the Districts' financial condition is reflected in its increase of net position.

Net Position

A summary of the District's Statements of Net Position is presented below.

Table 1
Condensed Statements of Net Position

	2015	2014	Dollar Change	Percent Change
Current and other assets	1,434,408	1,968,406	(533,998)	-27.1%
Capital assets, net	6,484,626	5,830,143	654,483	11.2%
Other assets, net	161,139	161,139	-	0.0%
Total Assets	8,080,173	7,959,688	120,485	1.5%
Long-term debt	1,265,000	1,395,000	(130,000)	-9.3%
Other liabilities	221,462	177,625	43,837	24.7%
Total Liabilities	1,486,462	1,572,625	(86,163)	-5.5%
Net position invested in capital assets, net of related debt	5,089,626	4,305,143	784,483	18.2%
Restricted net position	161,139	161,139	-	0.0%
Unrestricted net position	1,342,946	1,920,781	(577,835)	-30.1%
Total Net Position	6,593,711	6,387,063	206,648	3.2%

Total assets increased by \$120,485 from \$7,959,688 in 2014 to \$8,080,173 in 2015. This is a net result of decreases in current assets and an increase in capital assets. Capital

assets are a net result of all fixed assets, including 2015 additions, less accumulated depreciation.

Total liabilities decreased by \$86,163 from 1,572,625 in 2014 to \$1,486,462 in 2015. The decrease is a net result of a \$130,000 decrease in long-term debt and a net \$43,837 increase in all other liabilities (including current maturities of long-term debt).

Table 1 also indicates that the total net position increased by \$206,648 from \$6,387,063 in 2014 to \$6,593,711 in 2015.

Table 2
Condensed Statements of Revenues, Expenses and Changes in Net Position

	2015	2014	Dollar Change	Percent Change
Operating revenues	857,012	748,793	108,219	14.5%
Non-operating revenues	11,049	11,112	(63)	-0.6%
Total Revenues	868,061	759,905	108,156	14.2%
Depreciation & amortization expense	269,634	269,426	208	0.1%
Other operating expense	387,962	385,500	2,462	0.6%
Non-operating expense	24,766	25,725	(959)	-3.7%
Total Expenses	682,362	680,651	1,711	0.3%
Income (loss) before capital contributions	185,699	79,254	106,445	134.3%
Capital contributions	20,949	35,710	(14,761)	-41.3%
Changes in net position	206,648	114,964	91,684	79.8%
Beginning net position	6,387,063	6,272,099	114,964	1.8%
Total Net Position	6,593,711	6,387,063	206,648	3.2%

The Statements of Revenues, Expenses and Changes in Net Position presents revenue and expense items that affect the change in net position. As the information presented in Table 2 shows, income, before capital contributions, was \$185,699 for the year ending December 31, 2015, compared to \$79,254 in 2014. Year 2015 Capital Contributions were \$20,949 compared to \$35,710 in 2014. Income plus contributions resulted in a \$206,648 gain in net position during 2015 compared to the net position gain of \$114,964 in 2014.

Table 2 reflects the District's total revenues increased by \$108,156 from \$759,905 in 2014 to \$868,061 in 2015. The increase in revenues is a result of \$106,086 increase in water sales and a net increase of \$2,070 in other and non-operating revenues. The increase in water sales is attributed to a net result of a small decrease in quantity of water sales and 2015 being the first full year of a rate increase enacted late 2014. Total expenses increased by \$1,711. Non-operating expense decreased by \$959 from \$25,725 in 2014 to \$24,766 in 2015.

Net position increased by \$206,648 from \$6,387,063 on December 31, 2014 to \$6,593,711 on December 31, 2015.

Long-Term Debt

In September 2012, all debt remaining at the time was refinanced with the issuance of Series 2012 Revenue Bonds in the amount of \$1,780,000. The average net interest rate of the bond issue is 2.073% with a final bond maturity scheduled for August 1, 2025. The bond issue funded refinancing of existing debt only. There were no additional asset purchases associated with this bond issue. RWD No. 3 made scheduled principal repayments in February and in August of 2015. This bond issue represents the districts' total outstanding debt of \$1,395,000 at the end of 2015.

Economic Factors and Next Year's Budget and Rates

The staff and the Board of Directors reviews water rates, debt schedules, benefit unit fees and the long-range capital improvement plans on an annual basis. Adjustments to the rate and fee schedule are implemented as deemed appropriate or necessary to insure that the district maintains a sound financial position.

The Board of directors entered into a loan agreement with the Kansas Department of Health and Environment (KDHE), Kansas Public Water Supply Loan Fund (KPWSLF) for a loan not to exceed \$2,092,744. The loan is to fund both construction and administrative cost of a water system improvement project scheduled for completion in 2016. The Board of Directors approved a \$1,468,469 contract for construction of approximately 36 miles of water distribution pipeline and appurtenances. Construction started in 2015 and is scheduled for completion in 2016. As of December 31, 2015 no funds were drawn (no debt incurred) associated with this new KPWSLF loan.

A water rate schedule adjustment became effective for all water use and service after December 1, 2014. The management anticipates that the existing water rate schedule will be adequate to maintain a sound financial position throughout the year 2016.

The Board of Directors has adopted a 2016 budget that projects a net operating income of \$85,640. The budget estimates water sales of \$846,000, an increase of \$269 over 2015 sales. The 2016 budget reflects an increase in overall operating expenses of \$92,561 (13%) from 2015 expenses. The increase in budgeted expenses anticipates additions for depreciation and interest associated with an ongoing capital improvement project scheduled for completion in 2016.

Additional Financial Information

This financial report is designed to provide the District's patrons, investors and other interested parties with an overview of the District's financial operations and financial condition. Should the reader have questions regarding the information included in this report or wish to request additional financial information, please contact Paul J. Strathman, Business Manager, Rural Water District No. 3, Nemaha County, KS at 905 US Highway 36, Seneca, Kansas.

RURAL WATER DISTRICT NO. 3
NEMAHA COUNTY, KANSAS

STATEMENTS OF NET POSITION
DECEMBER 31, 2015 AND 2014

ASSETS	2015	2014
CURRENT ASSETS		
Cash and cash equivalents	\$ 885,897	\$ 1,403,700
Accounts receivable	57,751	71,696
Interest receivable	964	963
Inventory	47,903	52,243
Certificates of deposit	441,893	439,804
Total current assets	<u>1,434,408</u>	<u>1,968,406</u>
NONCURRENT ASSETS		
Reserve account	<u>161,139</u>	<u>161,139</u>
CAPITAL ASSETS		
Nondepreciable capital assets	<u>1,031,498</u>	<u>128,032</u>
Depreciable capital assets	10,598,792	10,578,141
Less accumulated depreciation	<u>(5,145,664)</u>	<u>(4,876,030)</u>
Depreciable capital assets, net	<u>5,453,128</u>	<u>5,702,111</u>
Total capital assets, net	<u>6,484,626</u>	<u>5,830,143</u>
Total assets	<u><u>8,080,173</u></u>	<u><u>7,959,688</u></u>
LIABILITIES		
CURRENT LIABILITIES		
Current maturities of long-term debt	130,000	130,000
Accounts payable and accrued expenses	30,256	35,629
Construction payable	43,656	-
Interest payable	10,176	10,596
Deposits	<u>7,374</u>	<u>1,400</u>
Total current liabilities	<u>221,462</u>	<u>177,625</u>
LONG-TERM DEBT, less current maturities	<u>1,265,000</u>	<u>1,395,000</u>
Total liabilities	<u><u>1,486,462</u></u>	<u><u>1,572,625</u></u>
NET POSITION		
Invested in capital assets, net of related debt	5,089,626	4,305,143
Restricted	161,139	161,139
Unrestricted	<u>1,342,946</u>	<u>1,920,781</u>
Total net position	<u><u>\$ 6,593,711</u></u>	<u><u>\$ 6,387,063</u></u>

RURAL WATER DISTRICT NO. 3
NEMAHA COUNTY, KANSAS

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015	2014
REVENUES		
Water sales	\$ 845,731	\$ 739,645
Other operating	11,281	9,148
	<u>857,012</u>	<u>748,793</u>
COSTS AND OPERATING EXPENSES		
Personnel costs	156,073	144,740
Depreciation and amortization	269,634	269,426
Chemical expense	31,427	34,000
Supplies	6,531	6,486
Utilities	87,237	90,182
Professional services	5,190	4,908
Transportation expense	11,817	15,331
Office and shop expense	9,541	11,123
Insurance	17,628	16,688
Repairs	40,490	39,362
Miscellaneous and lab testing	5,222	10,365
Water use fees	16,806	12,315
	<u>657,596</u>	<u>654,926</u>
INCOME FROM OPERATIONS	<u>199,416</u>	<u>93,867</u>
NON-OPERATING REVENUES (EXPENSES)		
Interest expense	(24,766)	(25,725)
Interest income	11,049	11,112
	<u>(13,717)</u>	<u>(14,613)</u>
INCOME BEFORE CONTRIBUTIONS	185,699	79,254
CONTRIBUTIONS - BENEFIT UNITS AND AID-IN CONSTRUCTION	<u>20,949</u>	<u>35,710</u>
INCREASE IN NET POSITION	206,648	114,964
NET POSITION, BEGINNING OF YEAR	<u>6,387,063</u>	<u>6,272,099</u>
NET POSITION, END OF YEAR	<u>\$ 6,593,711</u>	<u>\$ 6,387,063</u>

RURAL WATER DISTRICT NO. 3
NEMAHA COUNTY, KANSAS

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015	2014
OPERATING ACTIVITIES:		
Cash receipts from customers	\$ 824,399	\$ 748,793
Cash payments to suppliers for goods and services	<u>(293,228)</u>	<u>(395,281)</u>
Net cash provided by operating activities	<u>531,171</u>	<u>353,512</u>
CAPITAL AND RELATED FINANCING ACTIVITIES:		
Additions to fixed assets	(924,117)	(79,974)
Payments on long term debt	(130,000)	(125,000)
Interest and loan fees paid	(24,766)	(25,725)
Contributions - Benefit units and aid-in construction	<u>20,949</u>	<u>35,710</u>
Net cash used in capital and related financing activities	<u>(1,057,934)</u>	<u>(194,989)</u>
INVESTING ACTIVITIES:		
Change in certificates of deposit	(2,089)	(2,412)
Interest received	<u>11,049</u>	<u>11,112</u>
Net cash provided by investing activities	<u>8,960</u>	<u>8,700</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(517,803)	167,223
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>1,403,700</u>	<u>1,236,477</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 885,897</u>	<u>\$ 1,403,700</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Operating income	\$ 199,416	\$ 93,867
Adjustments to reconcile operating income		
to net cash provided by operating activities:		
Depreciation and amortization	269,634	269,426
Changes in:		
Accounts receivable	13,944	(18,670)
Inventories	4,340	(2,295)
Accounts payable and accrued liabilities	(5,793)	11,184
Construction payable	43,656	
Deposits	<u>5,974</u>	<u>-</u>
Net cash provided by operating activities	<u>\$ 531,171</u>	<u>\$ 353,512</u>

RURAL WATER DISTRICT NO. 3

NEMAHA COUNTY, KANSAS

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2015 AND 2014

1. DESCRIPTION OF ENTITY

- a. Organization and Description of Operations – The Rural Water District (the “District”) was established as a tax exempt organization under the laws of the State of Kansas and is governed by an independent Board of Directors. Principal functions of the District include the acquisition, treatment and distribution of water to owners and occupants of land located within the district. Total customers at December 31, 2015 and 2014 were 1,068 and 1061, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- a. Basis of Presentation and Accounting – The District’s financial statements are presented on the full accrual basis of accounting and conform to accounting principles generally accepted in the United States of America. The District has elected under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Activities That Use Proprietary Fund Accounting*, to apply applicable GASB pronouncements, including GASB Statement No. 34, as well as any applicable pronouncements of the Financial Accounting Standards Board, the Accounting Principles Board, or any Accounting Research Bulletins, unless these pronouncements conflict with or contradict GASB pronouncements.

The accounts of the District are organized on the basis of a proprietary fund type, specifically an enterprise fund. The activities of this fund are accounted for with a separate set of self-balancing accounts that comprise the District’s assets, liabilities, net position, revenues and expenses.

The accounting and financial reporting treatment applied to the District is determined by its measurement focus. The transactions of the District are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operations are included in the statements of net position. Net position (i.e. total assets net of total liabilities) are segregated into invested capital assets, net of related debt; restricted for debt service; and unrestricted components.

Management of the District has made certain estimates and assumptions relating to the reporting of assets and liabilities and revenues and expenses to prepare these financial statements in conformity with generally accepted accounting principles. Actual results may differ from those estimates.

- b. Cash Equivalents – For purposes of the statements of cash flows the District considers all highly liquid debt investments having original maturities of three months or less to be cash equivalents.
- c. Inventories – Inventories consist primarily of meters, line maintenance material and chemicals. Inventories are stated at the lower of cost or market. Cost is determined using the first-in, first-out method.
- d. Debt Issue Costs – Costs related to the issuance of debt are expensed as incurred.

- e. Capital Assets – The cost of additions to the District’s plant, distribution system and other assets with an estimated useful life in excess of two years are capitalized. Cost includes materials, outside services and, if applicable, interest on borrowed funds to finance construction. The cost and accumulated depreciation of property sold or retired is deducted from capital assets, and any profit or loss resulting from the disposal is credited or charged in the nonoperating section of the statement of revenues, expenses and changes in net position.

Depreciation is calculated using the straight-line method over the estimated useful lives of the assets.

- f. Income Taxes – The District is a quasi-governmental unit, not subject to federal or state income taxes.
- g. Capital Contributions – Transmission and distribution system assets contributed to the District are capitalized at the members’ costs, which approximate fair value, and recorded as capital contributions when received.
- h. Accounts Receivable and Unbilled Revenue – The District utilizes cycle billing and accrues an estimated amount of revenues for sales unbilled at the end of each reporting period. The unbilled amount plus any amounts billed to customers but not yet received by The District is recorded as accounts receivable and water sales.
- i. Net Position – Net position comprise the various net earnings from operating income, nonoperating revenues and expenses, and capital contributions. Net position is classified in the following three components:

Invested in Capital Assets, Net of Related Debt – This component of net position consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

Restricted – This component of net position consists of constraints imposed by creditors (such as through debt covenants), grantors, contributors or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted – This component of net position consists of assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

Subsequent Events – Management has evaluated subsequent events through the date of the Independent Auditors’ Report, the date which the financial statements were available for issue.

3. CASH AND INVESTMENTS

The District maintains its cash balances in three banks. At times, the District maintains deposits in financial institutions in excess of federally insured limits. Management monitors the soundness of these institutions and feels the District’s risk is negligible. At December 31, 2015, the District’s deposits were covered by federal depository insurance or by collateral held by the District’s agent in the District’s name.

4. CAPITAL ASSETS

Changes in capital assets were as follows:

	2013	Additions	Disposals & Transfers	2014
Nondepreciable capital assets:				
Land	59,775			59,775
Construction in progress	40,781	59,582	(32,106)	68,257
	<u>100,556</u>	<u>59,582</u>	<u>(32,106)</u>	<u>128,032</u>
Depreciable capital assets:				
Building	209,000			209,000
Tanks and standpipes	2,217,259			2,217,259
Transmission and distribution	8,013,780	8,758	32,106	8,054,644
Furniture and fixtures	60,481	11,634	(11,854)	60,261
Vehicles	36,977			36,977
	<u>10,537,497</u>	<u>20,392</u>	<u>20,252</u>	<u>10,578,141</u>
Less accumulated depreciation	<u>(4,618,458)</u>	<u>(269,426)</u>	<u>11,854</u>	<u>(4,876,030)</u>
Depreciable capital assets, net	<u>5,919,039</u>	<u>(249,034)</u>	<u>32,106</u>	<u>5,702,111</u>
Total capital assets, net	<u>6,019,595</u>	<u>(189,452)</u>	<u>-</u>	<u>5,830,143</u>

	2014	Additions	Disposals & Transfers	2015
Nondepreciable capital assets:				
Land	59,775			59,775
Construction in progress	68,257	917,181	(13,715)	971,723
	<u>128,032</u>	<u>917,181</u>	<u>(13,715)</u>	<u>1,031,498</u>
Depreciable capital assets:				
Building	209,000			209,000
Tanks and standpipes	2,217,259			2,217,259
Transmission and distribution	8,054,644	19,533		8,074,177
Furniture and fixtures	60,261	1,118		61,379
Vehicles	36,977			36,977
	<u>10,578,141</u>	<u>20,651</u>	<u>-</u>	<u>10,598,792</u>
Less accumulated depreciation	<u>(4,876,030)</u>	<u>(269,634)</u>		<u>(5,145,664)</u>
Depreciable capital assets, net	<u>5,702,111</u>	<u>(248,983)</u>	<u>-</u>	<u>5,453,128</u>
Total capital assets, net	<u>5,830,143</u>	<u>668,198</u>	<u>(13,715)</u>	<u>6,484,626</u>

5. LONG-TERM DEBT

Kansas Public Water Supply Loan Fund – 2015

In January 2015 the district entered into a loan agreement with the KPWSLF under which the District can borrow up to \$2,092,744 at an interest rate of 1.96% with a final maturity scheduled for February 1, 2036. As of December 31, 2015 no advances had been drawn against the available loan amount.

Series 2012 Revenue Bond

In September 2012 the district issued Series 2012 Revenue Bonds in the amount of \$1,780,000 to refinance existing debt. The average net interest rate of the bond issue is 2.073% with a final bond maturity scheduled for August 1, 2025. The bond issue funded refinancing of existing debt only. There were no additional asset purchases associated with this bond issue.

Per the agreement, the District maintains a loan reserve account in the amount of \$161,139 which is on deposit with a bank in the form of a certificate of deposit with a maturity date of September 2017.

The District is required to maintain a Debt Service Coverage Ratio, as defined in the loan agreements of at least 125%.

Interest expense on long-term debt totaled \$24,766 and \$25,725 for the years ended December 31, 2015 and 2014, respectively.

Changes to the District's long-term debt are as follows:

Total long-term debt, beginning	\$ 1,525,000
Advances	-
Principal payments	(130,000)
Total long-term debt, ending	1,395,000
Less current portion	130,000
Noncurrent portion	<u>\$ 1,265,000</u>

Future maturities of long-term debt are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 130,000	\$ 24,146	\$ 154,146
2017	130,000	22,960	152,960
2018	135,000	21,530	156,530
2019	135,000	19,775	154,775
2020	140,000	17,710	157,710
2021-2025	725,000	46,129	771,129
	<u>\$ 1,395,000</u>	<u>\$ 152,250</u>	<u>\$ 1,547,250</u>

Debt Service Coverage Ratio Calculation:

Income from operations	\$ 199,416
Add:	
Depreciation and amortization	269,634
Interest income	11,049
Income available for debt service	<u>\$ 480,099</u>
Debt service	
Interest expense	\$ 24,766
Principal payments	130,000
	<u>\$ 154,766</u>
Debt service coverage ratio	<u>3.10</u>

6. PENSION PLAN

Substantially all of the District's employees participate in the Kansas Public Employees Retirement System ("System"), a multiple employer public employee retirement system. The 2015 and 2014 payroll for employees covered by the System was \$116,374 and \$106,860, respectively.

Covered employees are required by state statute to contribute statutorily defined rates of their salary to the System. The District is required by statute to contribute the remaining amounts using the full funding method, which funds current costs each year and past service liability over a 40-year period. The contribution requirement for the year ended December 31, 2015 and 2014 was \$18,666 and \$15,698, respectively, which consisted of \$6,702 and \$5,343 from employees and \$11,964 and 10,355, respectively from the District; these contributions represented approximately 16.0% and 14.6% percent of 2015 and 2014 covered payroll, respectively.

Effective for fiscal years beginning after June 15, 2014, GASB issued Statement No. 68, "Accounting and Financial Reporting for Pensions", which establishes accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This statement replaces the requirements of Statement No. 27, "Accounting for Pensions by State and Local Government Employers", as well as the requirements of Statement No. 50, "Pension Disclosures", as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements that meet certain criteria. Also, this statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures.

As of December 31, 2015, the District has not implemented GASB Statement No. 68 and therefore has not recorded a liability for its proportionate share of the unfunded liability in their pension plan on the balance sheet. If the District implemented GASB Statement No. 68, the District would have reported a liability of approximately \$78k and \$101k at December 31, 2015 and 2014, respectively, for its proportionate share of the net pension liability.

7. COMPLIANCE WITH KANSAS STATUTES

References made herein to the statutes are not intended as interpretations of law, but are offered for consideration of the Director of Accounts and Reports and interpretation by the County Attorney and legal representatives of the water district. There were no apparent statutory violations during the years ended December 31, 2015 and 2014.

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